

# Trends and Intelligence Regarding Illicit Cigarette/Tobacco Activity

*NESTOA Conference – Groton, CT*

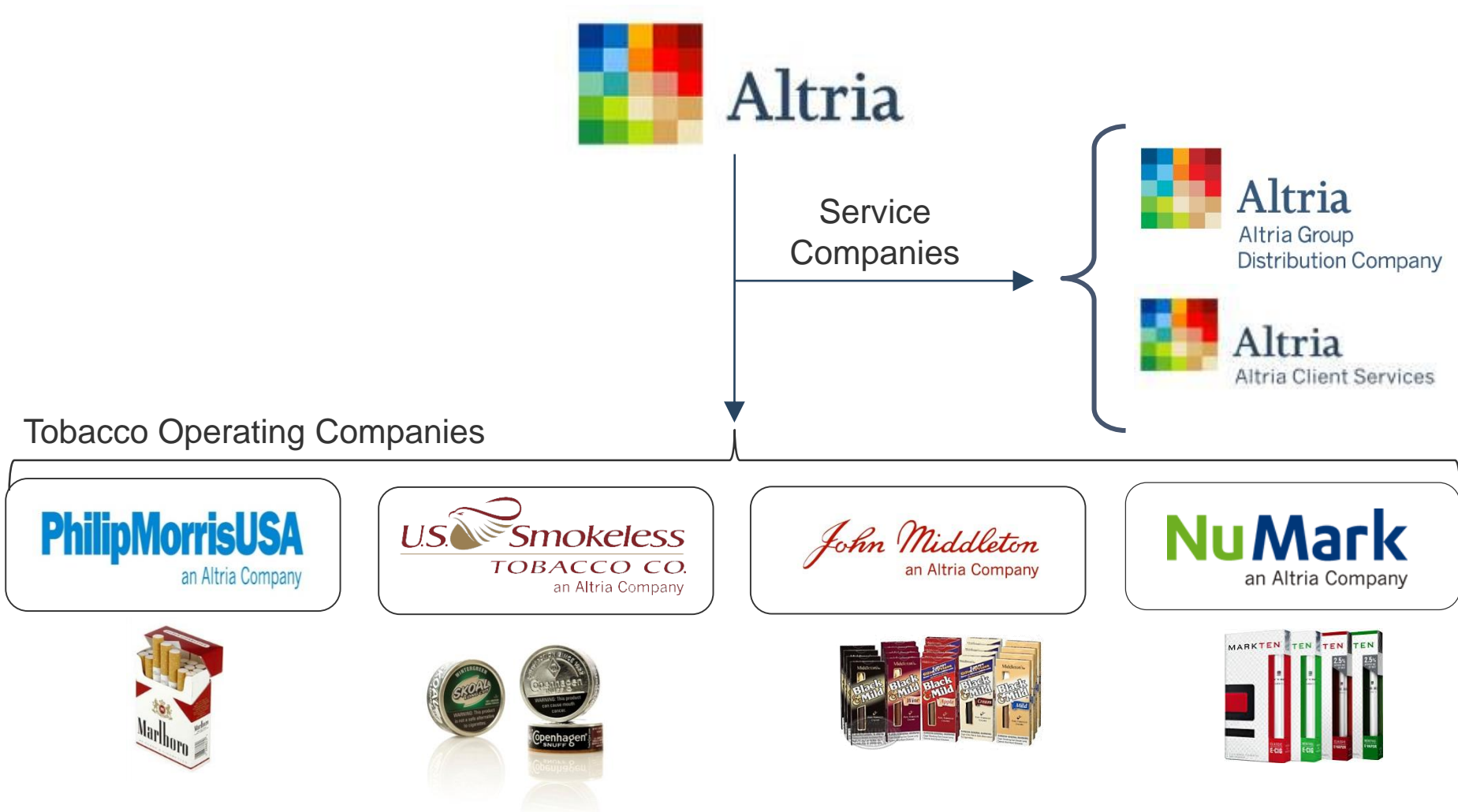
*September 28, 2015*



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# Altria Tobacco Operating Companies Structure



For illustrative purposes only.  
Not actual corporate structure; does not reflect all Altria subsidiaries in its entirety.

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# PM USA Manufacturing in Richmond, VA



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# Marlboro trademark



**PhilipMorrisUSA**  
an Altria Company



**PhilipMorris**  
Duty Free  
an Altria Company



**PHILIP MORRIS INTERNATIONAL**



In 2008, Altria spun-off Philip Morris International (PMI) as its own separate, independently operated company with no affiliation to Philip Morris USA. Philip Morris USA owns the Marlboro brand and other cigarette trademarks in the U.S., including its territories and possessions. PMI owns those trademarks, including Marlboro, in the rest of the world.



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# Marlboro trademark

**PhilipMorrisUSA**  
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- No mention of “U.S. Tax Exempt For Use Outside U.S.” on right panel or other areas of packaging
- No mention of “For Duty Free Sale Only” on right panel or other areas of packaging

**PhilipMorris**  
**Duty Free**  
an Altria Company



- “Philip Morris Duty Free Inc.” just above business address
- Right panel contains “U.S. Tax Exempt For Use Outside U.S.”
- Carton print text on tear tape: “Exclusive For Duty Free”



PHILIP MORRIS INTERNATIONAL



- Manufactured by Philip Morris International, or its affiliates, and intended for sale outside the United States
- May be printed in a foreign language or bear foreign stamps
- Cartons are typically wrapped in clear film

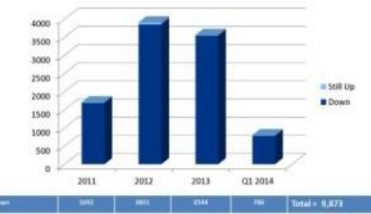


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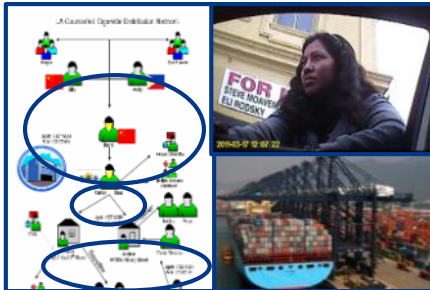
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# Brand and Trade Channel Integrity Strategies

Marketplace Listing Enforcements to Date



Market Monitoring



Investigative Intelligence

## NEWS

### Phillip Morris Suing Miami Stores Over Counterfeit Cigarettes



Litigation



Communications

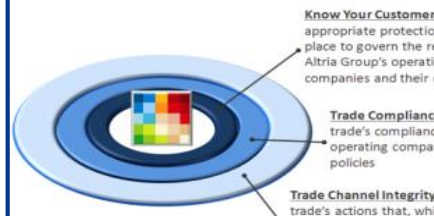


Product Security



Government Affairs

## Trade Compliance Framework



Trade Channel Integrity



Law Enforcement Engagement & Support

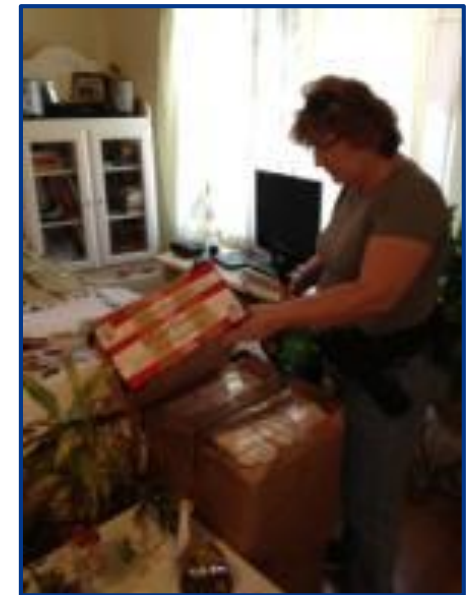
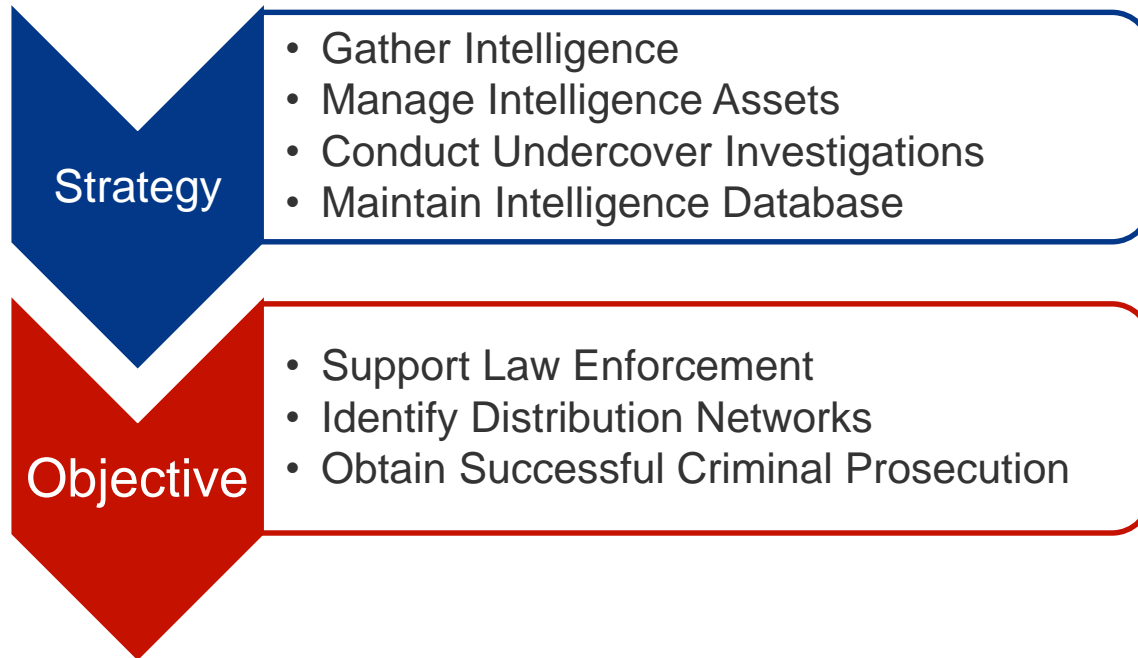


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# Anti-Illicit Trafficking Unit

Develop and provide strategic guidance with the aim of disrupting the production and distribution of illicit tobacco products.



# Cigarette Trafficking

## Drivers

- High profitability
- Low law enforcement priority
- Minimal criminal exposure
- Easily acquired and transported
- Large consumer market
- Fast product turnover rate





# Counterfeiting & Internet Cigarettes

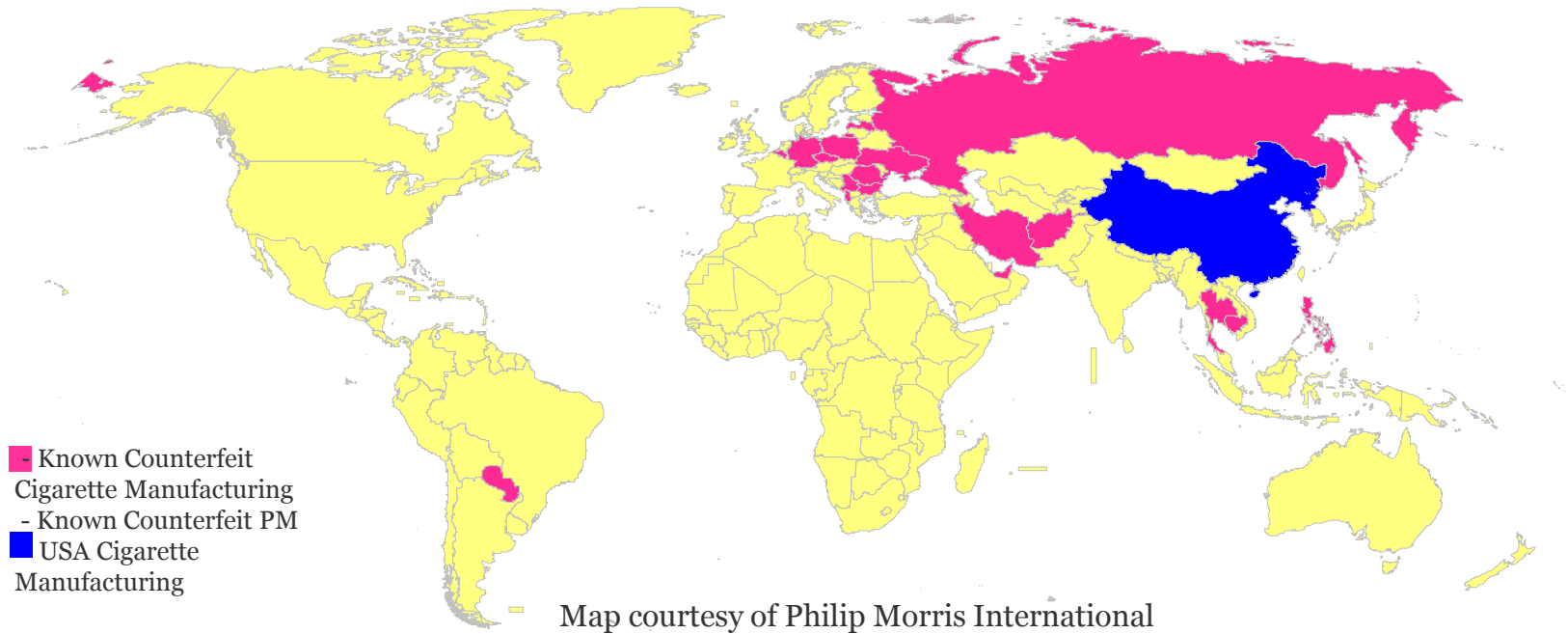


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# Counterfeit Cigarette Manufacturing



China estimated to possess 50% of worldwide counterfeit cigarette production<sup>1</sup>

Estimates range between 100 to 400 billion counterfeit cigarettes annually



# Counterfeit Production-China



# Counterfeit Cigarettes



Genuine

Counterfeit

**Counterfeit Cigarettes** describes fake cigarettes made to look like that of a genuine pack and carton of cigarettes.



Estimated Street Value  $\approx$  \$3,200,000

Loss of Federal Excise Tax  $\approx$  \$404,000

Loss of State Excise Tax  $\approx$  \$2,340,000

- Calculation: 1 container estimated to contain 40,000 cartons / 800 cases
- FET loss based \$1.01 per pack that went into effect April 1, 2009.
- SET loss based on NYS & NYC SET of \$5.85 per pack as of July 1, 2011



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# Online Sales of Counterfeit Cigarettes

## Examples of International websites suspected of selling counterfeit cigarettes with counterfeit tax stamps

NOTE: BTCI has taken previous action against both sellers, but they reappeared with new URLs



### **Sale Marlboro Red 80 Cigarettes With NY FL Stamps** (Marlboro Cigarettes Sale Red )

Company Name: Marlboro Box King Cigarettes Online

Related Categories:  
Related Products:

Cigarette & Tobacco,  
Marlboro Red Cigarette, Marlboro Red Cigarettes »



### **US Stamp Marlboro Cigarettes Free Tax Available** (Marlboro Cigarettes Us Stamp )

Company Name: webvipshopping trade corp

Related Categories:  
Related Products:

Smoking Cigarettes, Orginal Cigarettes »

Website images and Search results found via Google Search for "Cheap Marlboro with Tax Stamps" on August 28, 2012



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# Counterfeit obtained in NYC & LA in 2015



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# Counterfeit Indicators

- Fluorescence
- Carton overwrap
- Case in a case
- Duplicate case time stamps
- 12M/6M vs. 10M/5M
- Quality issues
  - Misspelling (EINE vs. FINE)
  - Misregistration (PM crest)
- Known counterfeit code



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# Genuine Packaging Descriptors: *Date Codes*

- All genuine Marlboro cases, cartons and packs have date codes printed on them indicating:

- Production Location
- Production Date
- Production Time

**V035Z11B5**

Position 1 = State (**V** for VA or **R** for VA Cold Storage)  
Positions 2-4 = Julian Date (035 = Feb. 4)  
Position 5 = Production Shift (X, Y, or Z)  
Position 6 = 1-digit year (1 is 2011)  
Positions 7-9 = Factory Equipment Location



- Case, carton, and pack date codes should match
- Cases include a date code and a time stamp; No two cases have the same date code and time stamp



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# Internet-Ordering Illicit Cigarettes

www.AZCigs.net



The screenshot shows the AZCigs.net homepage. At the top, there's a navigation bar with links: home, faq, contact, order status, and shopping cart. Below this is a banner for EU customers with a 'CLICK HERE' button. A 'Welcome to AZcigs.net !' message is displayed. A section titled 'Our Brands' lists various cigarette brands including 555 State Express, American Legend, Benson & Hedges, Marlboro, Mayfair, Mild Seven, Monte Carlo, and More. A large promotional banner features three cigarette packs: Marlboro Red Box (\$36.90), Winston Lights (\$31.90), and Camel Lights (\$31.90), with the text 'Price per 200 cigarettes 1-carton'. A central box titled 'Why Choose AZcigs.net?' lists benefits: Guaranteed Delivery to ALL 50 US States, NO Purchase Reporting, Loyalty Bonuses and Offers, Online Order Status, Visa, AMEX, ACH, Fast Shipping, and Only FRESH Cigarettes. At the bottom, it states 'All transactions are processed in US dollars'.

www.AZCigs.net

home faq contact order status shopping cart

Welcome to AZcigs.net !

"Like" Us on Facebook and receive 5% discount!

Give us a "Like" on Facebook and get an exclusive one time 5% discount!

The instructions are simple: just visit [www.facebook.com/AzCigs](http://www.facebook.com/AzCigs) and click the Like button at the top.

Our Brands

- 555 State Express
- Marlboro
- American Legend
- Mayfair
- Benson & Hedges
- Mild Seven
- Monte Carlo
- More

\$36.90 Marlboro Red Box

\$31.90 Winston Lights

\$31.90 Camel Lights

Price per 200 cigarettes 1-carton

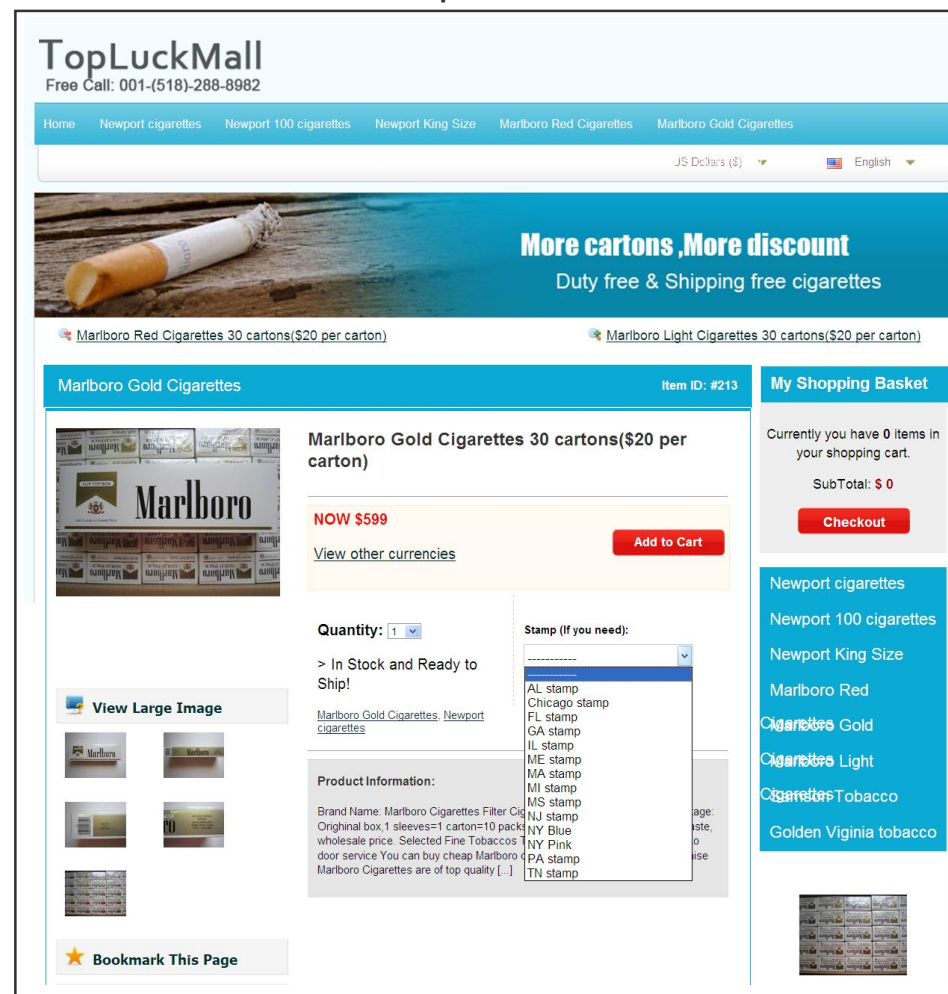
Sited visited March 26, 2013

**Why Choose AZcigs.net?**

- Guaranteed Delivery to ALL 50 US States
- NO Purchase Reporting
- Loyalty Bonuses and Offers
- Online Order Status
- Visa, AMEX, ACH
- Fast Shipping
- Only FRESH Cigarettes

All transactions are processed in US dollars

www.TopLuckMall.com



The screenshot shows the TopLuckMall website. The header includes the site name 'TopLuckMall' and a free call number '001-(518)-288-8982'. A navigation bar lists categories: Home, Newport cigarettes, Newport 100 cigarettes, Newport King Size, Marlboro Red Cigarettes, and Marlboro Gold Cigarettes. A banner for 'More cartons, More discount' with 'Duty free & Shipping free cigarettes' is displayed. Below this, there are links for 'Marlboro Red Cigarettes 30 cartons(\$20 per carton)' and 'Marlboro Light Cigarettes 30 cartons(\$20 per carton)'. The main product section features 'Marlboro Gold Cigarettes 30 cartons(\$20 per carton)' with a 'NOW \$599' price tag and an 'Add to Cart' button. A 'View other currencies' link is also present. A 'Quantity' dropdown is set to 1. A 'Stamp (if you need):' dropdown menu is open, showing options like AL stamp, Chicago stamp, FL stamp, GA stamp, IL stamp, ME stamp, MA stamp, MI stamp, MS stamp, NJ stamp, NY Blue, NY Pink, PA stamp, and TN stamp. A 'View Large Image' button is visible. A 'Product Information' box provides details about the brand name, original box, sleeves, and pack count. A 'Bookmark This Page' button is at the bottom. On the right, a 'My Shopping Basket' section shows 'Currently you have 0 items in your shopping cart' and a 'SubTotal: \$ 0'. A 'Checkout' button is provided. A sidebar lists various cigarette brands: Newport cigarettes, Newport 100 cigarettes, Newport King Size, Marlboro Red, Marlboro Gold, Marlboro Light, Marlboro Tobacco, and Golden Virginia tobacco.

TopLuckMall

Free Call: 001-(518)-288-8982

Home Newport cigarettes Newport 100 cigarettes Newport King Size Marlboro Red Cigarettes Marlboro Gold Cigarettes

JS Dollars (\$) English

More cartons, More discount

Duty free & Shipping free cigarettes

Marlboro Red Cigarettes 30 cartons(\$20 per carton)

Marlboro Light Cigarettes 30 cartons(\$20 per carton)

Marlboro Gold Cigarettes Item ID: #213

Marlboro Gold Cigarettes 30 cartons(\$20 per carton)

NOW \$599

View other currencies

Add to Cart

Quantity: 1

Stamp (if you need):

- AL stamp
- Chicago stamp
- FL stamp
- GA stamp
- IL stamp
- ME stamp
- MA stamp
- MI stamp
- MS stamp
- NJ stamp
- NY Blue
- NY Pink
- PA stamp
- TN stamp

View Large Image

Product Information:

Brand Name: Marlboro Cigarettes Filter Cigarettes

Original box, 1 sleeves=1 carton=10 packs

wholesale price. Selected Fine Tobaccos

door service You can buy cheap Marlboro

Marlboro Cigarettes are of top quality [...]

Bookmark This Page

My Shopping Basket

Currently you have 0 items in your shopping cart.

SubTotal: \$ 0

Checkout

Newport cigarettes

Newport 100 cigarettes

Newport King Size

Marlboro Red

Marlboro Gold

Marlboro Light

Marlboro Tobacco

Golden Virginia tobacco

Sited visited March 26, 2013



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# Illicit Cigarette Import Methods



# Express Mail Shipments - Samples



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DEC 14 2012  
1:44:55PM



# Cigarettes seized by Brooklyn D.A. - January 2013



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# Express Consignment Facility Seizure

6747 Engle Road  
Middleburg Heights, OH 44130



**U.S. Customs and  
Border Protection**

Port of Cleveland Case No.  
2015-4198-100337-01

March 9, 2015

Altria Client Services, Inc.  
Meredith Miles, Esq.  
Asst. General Counsel – Law Dept.  
6603 W. Broad St.  
Richmond, VA 23230

Dear Sir/Madam:

In accordance with 19 CFR § 133.21, Customs Regulations, (Title 19, Code of Federal Regulations), implementing Section 526 of the Tariff Act of 1930, as amended, Title 19, United States Code, Section 526 (19 U.S.C. § 1526(e)), articles bearing counterfeit trademarks are subjected to seizure and forfeiture.

Customs has seized goods which bear marks which constitute counterfeit copies of the following trademark and is notifying you, the trademark holder, of the action:

Description of Trademark: Marlboro Word Mark  
U.S. Customs Recordation Number: TMK 08-01054  
U.S. Patent & Trademark Office Registration Number: 3419647

In accordance with 19 CFR § 133.21 you are hereby notified of the following seizure information:

Date of Importation:	March 5, 2015
Port of Entry:	Indianapolis, IN
Description of Merchandise:	100 Marlboro Gold Cigarette cartons
Name/Address of Exporter:	Shenzhen Shejon Century Trade Co. Ltd. 2B Huafeng Technology Park Dayangtian Fuyong Street, Baoan District Shenzhen 518125 China, Peoples Republic
Name/Address of Importer:	DM Enterprise 5185 Gold Basin Rd. Ft. Worth, TX 76179
Country of Origin:	China

Under the provisions of 19 CFR § 133.21, you may obtain a sample of the seized goods upon request, at a cost of \$100.00 per sample, provided you meet certain conditions. Digital images will not be provided. For any questions, please contact Paralegal Specialist Patricia Mellott at (440) 891-3871.

Sincerely,

  
Tessie Douglass  
FP&F Officer



Photo provided by CBP



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# Smuggling Low to High Tax Jurisdictions

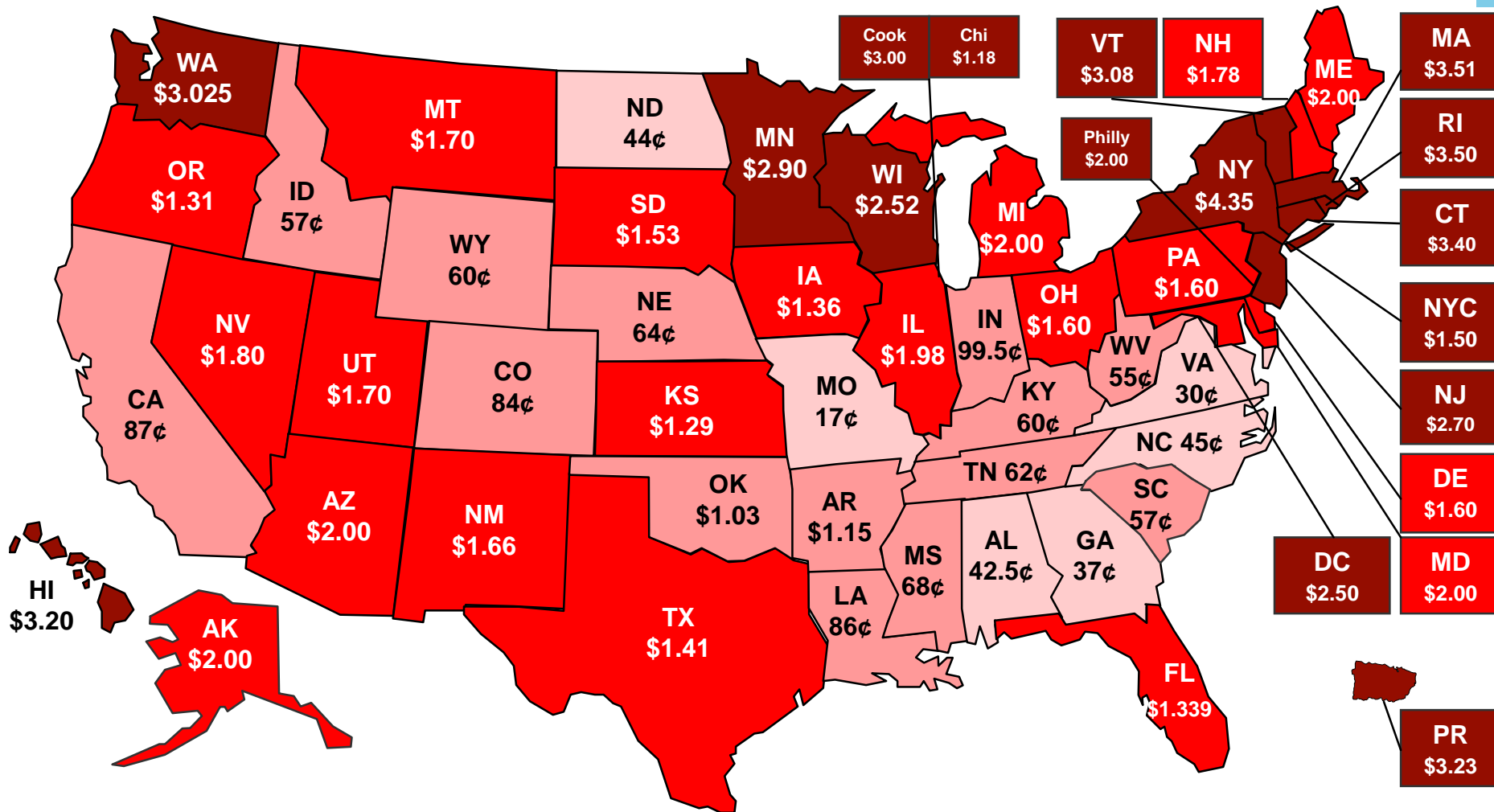


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# State Excise Tax (SET) rates as of August 3, 2015



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# I-95 & I-81 to I-78 Corridor – Cigarette Trafficking

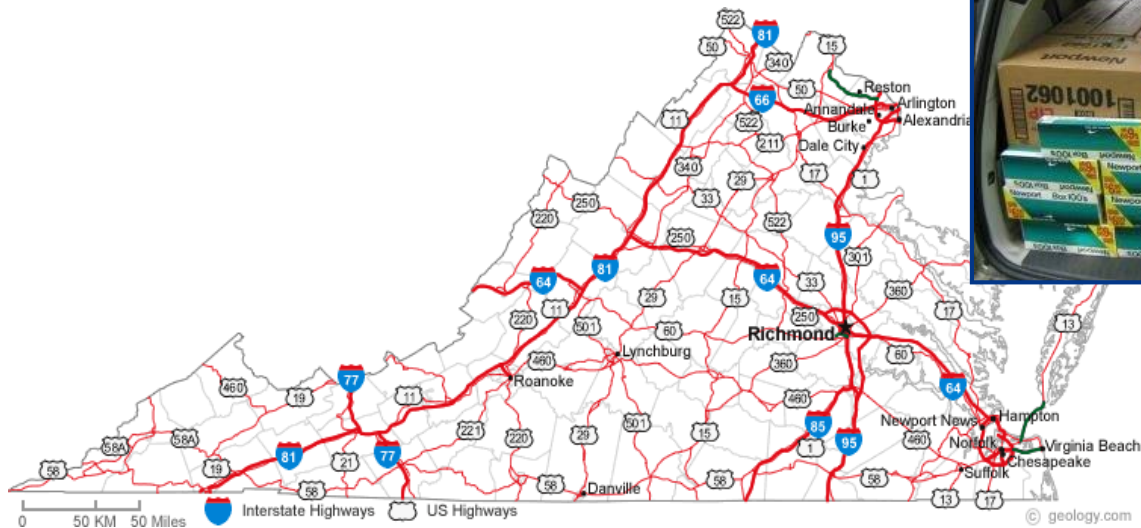


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# Virginia Anti-Smuggling Legislation

- Enables Virginia law enforcement to act on observed smuggling
  - Prohibits the possession of more than 5,000 tax-paid cigarettes (25 cartons) for anyone outside the legitimate distribution chain
  - Establishes criminal and increased civil penalties for violations
- Law went into effect July 1, 2012



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# Listed As Cigarette Wholesalers in Virginia



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# Buying In Bulk





# The first look can be deceiving!



Pictures provided by Northern Virginia Cigarette Tax Board



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# I-95 Smuggling Activity





# Virginia to New York

## **NYS Tax Department Raids Two Brooklyn Locations to Collect 3,236 Cartons of Illegal Cigarettes**

*Strike Force arrests 2, seizes thousands of counterfeit stamps & more than \$130,000 in cash*

For Release: Immediate, Tuesday, June 03, 2014



The New York State Department of Taxation and Finance said today it has seized 3,236 cartons of Virginia stamped contraband cigarettes in Brooklyn, along with 3,795 counterfeit New York State tax stamps and more than \$130,000 in cash.

The Department's Cigarette Strike Force arrested two New Yorkers in the process. They were identified as Ji Long Chen, 37, of 1867 Shore Parkway and Mohamed A. Kassim, 27, of 85 Eastern Parkway, both in Brooklyn.

Press release & photo from NYS Tax Enforcement



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# Law Enforcement Support – MSOG TF



Posted: Sunday, May 10, 2015 10:30 pm

-“Dumb Crook News,” has long been a staple of entertainment media. There’s a good reason for that: Lots of criminals are really stupid.

-Fattoh Ghaleb, who faces two felony charges in connection to cigarette trafficking in Henrico County, Virginia is one of these folks.

-Recent article in Times-Dispatch “In a photograph on his Facebook page posted last August, Ghaleb holds wads of \$50 bills up to his ear as if using a phone. In another, a bundle of \$100 bills covers his eyes as his head and neck rest on rubber-banded packs of twenties. ... In photo posted last month, Ghaleb, wearing street clothes, poses holding a variant of an AK-47 rifle.”



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Courtesy-Facebook & Richmond Times Dispatch



# I-95 Case Study



## Bust on I-95 leads to seizure of \$238,000 worth of cigarettes

POSTED 3:04 PM, SEPTEMBER 8, 2015, BY [ALIX BRYAN](#)

- Near Emporia Virginia approximately 2,000 cartons of cigarettes were seized as part of a joint investigation involving the Greensville, VA County Sheriff's Office and Rocky Mount, NC Police Department who were working a case involving the illegal trafficking of cigarettes.
- Deputies stopped a 2005 Chevrolet Van northbound on Interstate 95 for a traffic violation.
- A search warrant for the van lead to the seizure of 1,986 cartons of cigarette's being smuggled north.
- Nedall Ahmad Hasan the driver from Rocky Mount, was arrested and charged with a felony for trafficking over 500 cartons of cigarettes.
- Authorities estimated street value of the seized cigarettes was as much as is \$238,000.



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<http://wtvr.com/2015/09/08/bust-on-i-95-leads-to-seizure-of-238000-worth-of-cigarettes/>

# Tax Stamps

Counterfeit MA & CA tax stamps on  
smuggled Newport & Marlboro brand cigarettes



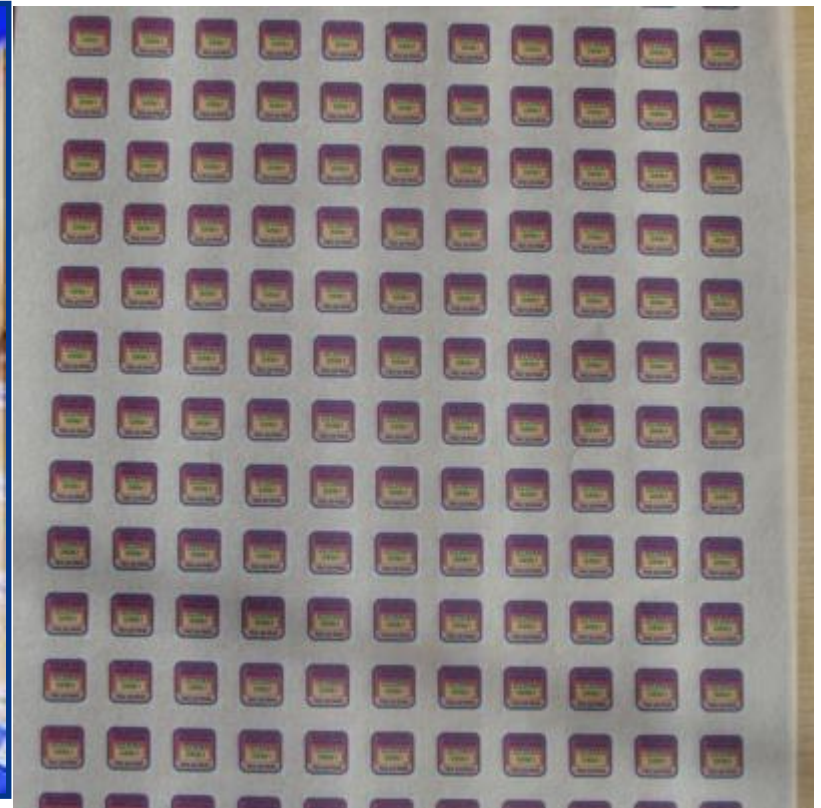
Pictures provided by ALCS and its Investigative Vendors



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# Tax Stamps



- Genuine excise tax stamps are predominantly in rolls

- Counterfeit PA/Philly excise tax stamps seized by NJ Treasury CID November 2014.

Courtesy NJ Treasury CID



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# Tax Stamp Screening Techniques:

## *Counterfeit stamps applied over Genuine*

Further inspection reveals the genuine Virginia state tax stamp present underneath the counterfeit New York city / New York state combo tax stamp...

Outer view of pack



Remove tear tape  
and pull down  
cello...



Inside view  
of cello...



Magnified inside view of cello...



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# Retail Concealment



Photos are courtesy of the NYC Sherriff's Department



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# Retail Concealment



# Retail Concealment in LA area

Hidden compartment beneath counter operated by remote key fob



Remote Lock Mechanism

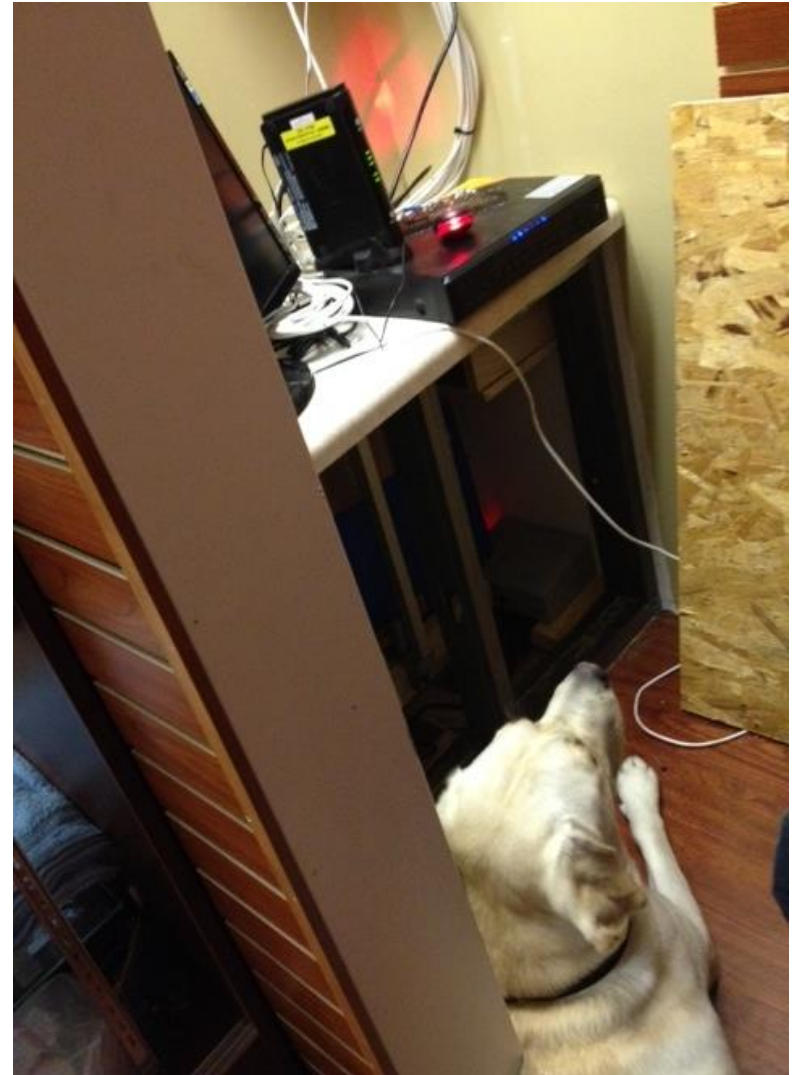


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# Altria Tobacco Detection Canine Program





# Canines Locate Retail Concealment In NYC



# Chicago - Canine Finds Concealment

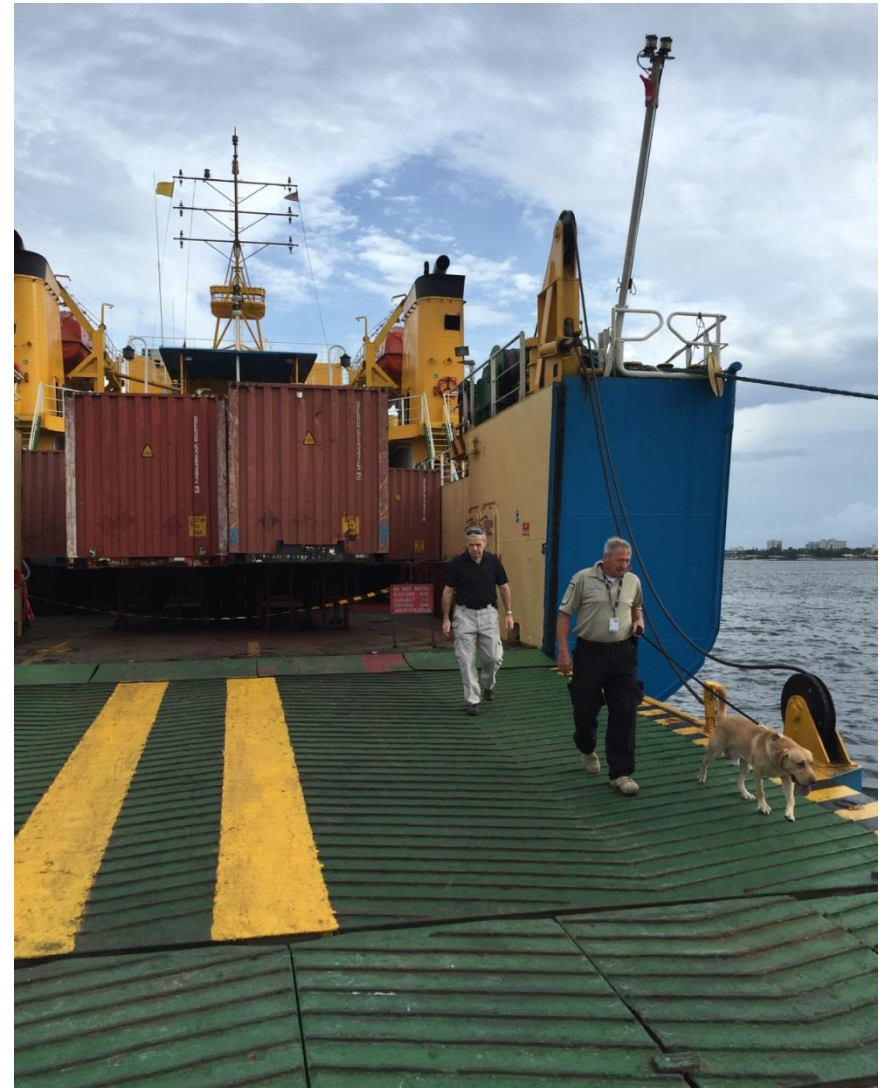
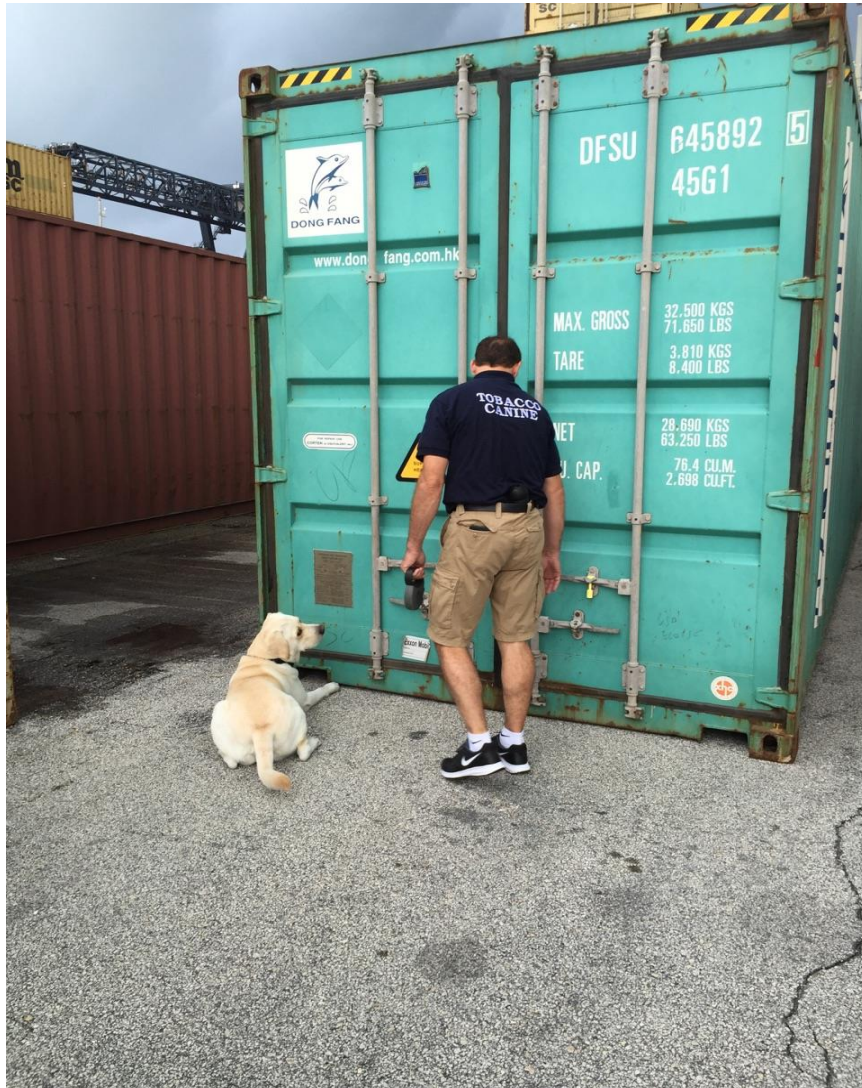


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# Canines Locate Illicit Cigarettes in Florida





# Empty Discarded Pack Program



## **Altria's Empty Discarded Pack (EDP) Program Background**

To protect the integrity of Altria's tobacco operating companies' brands and the legitimate trade channels through which they are distributed and sold, Altria Client Services, on behalf of Philip Morris USA, conducts Empty Discarded Pack (EDP) surveys in select U.S. cities. These EDP surveys are used to obtain information on potentially illicit cigarettes consumed in that city.

Packs are collected from public spaces and public trash receptacles over the span of a month by a third party vendor from a representative sample of neighborhoods in the city. The packs are analyzed for the presence of counterfeit as well as to determine their tax-paid status. The lack of the applicable tax stamp on a pack does not necessarily indicate illicit trade, since the presence of a discarded pack does not mean it was sold in that jurisdiction, nor does it indicate how it was transported into the collection area. The pack might have been brought in legally by a visitor, tourist or through a legal cross-border consumer purchase.



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## Industry EDP Findings – New York City – Collection Dates: April 1 – 20, 2015

- . 30% of the cigarettes were genuine cigarettes, intended for sale in the U.S. that had the applicable city and state tax paid on them.
- . 33% came from Virginia where the excise tax per pack is \$5.55 lower.
- . 3% came from New York state where the excise tax per pack is \$1.50 lower.
- . 4% came from New Jersey where the excise tax per pack \$3.15 lower.
- . 3% came from Georgia where the excise tax per pack is \$5.48 lower.
- . 2% came from Pennsylvania where the excise tax per pack is \$4.25 lower.
- . 4% came from other states.
- . 10% had counterfeit excise tax stamps.
  - o 8% were counterfeit NYC/NY excise tax stamps.
  - o 1% were counterfeit VA stamps.
  - o 1% were counterfeit stamps from other states.
- . 3 % had no excise tax stamp.
- . 8 % were intended for sale in duty free channels or outside the US.
  - o 3% were intended for sale in non-US duty free stores.
  - o 2% were intended for sale in the China domestic market.
  - o 1% were intended to be sold in US duty free stores, and
  - o 2% were intended to be sold in other foreign markets.



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# OTP Tax Evasion



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## OTHER TOBACCO PRODUCTS TAX

(January 1, 2015)

State	Tax Rate/Base (1)	State	Tax Rate/Base (1)
Alabama (2)		Massachusetts	40% Wholesale Price
Cigars	3.0¢-40.5¢/ 10 cigars	Michigan	32% Wholesale Price
Tobacco/Snuff	2¢-8¢/ ounce	Minnesota	95% Wholesale Price
Alaska	75% Wholesale Price	Mississippi	15% Manufacturer's Price
Arizona		Missouri	10% Manufacturer's Price
Cigars	22.01¢-\$2.18/10 cigars	Montana (4)	50% Wholesale Price
Tobacco/Snuff	23.8¢/ounce	Nebraska (4)	20% Wholesale Price
Arkansas	68% Manufacturer's Price	Nevada	30% Wholesale Price
California (3)	28.95% Wholesale Price	New Hampshire	48% Wholesale Price
Colorado	40% Manufacturer's Price	New Jersey (4)	30% Wholesale Price
Connecticut (4)	50% Wholesale Price	New Mexico	25% Product value
Delaware (4)	15% Wholesale Price	New York (4)	75% Wholesale Price
Florida (5)		North Carolina	12.8% Wholesale Price
Tobacco/Snuff	85% Wholesale Price	North Dakota	
Georgia		Cigars & Tobacco	28% Wholesale Price
Little Cigars	2.5¢/10 cigars	Chew Tobacco & Snuff	16¢-60¢ /ounce
Other Cigars	23% Wholesale Price	Ohio	17% Wholesale Price
Tobacco	10% Wholesale Price	Oklahoma	
Hawaii (6)		Cigars Little&Large	36¢-\$1.20/ 10 cigars
Large Cigars	50% Wholesale Price	Snuff&Tobacco	60%-80% Factory list price
Tobacco/Snuff	70% Wholesale Price	Oregon (4)	65% Wholesale Price
Idaho	40% Wholesale Price	Rhode Island	80% Wholesale Price
Illinois (4)	36% Wholesale Price	South Carolina	5% Manufacturer's Price
Indiana	24% Wholesale Price	South Dakota	35% Wholesale Price
Iowa (6)	50% Wholesale Price	Tennessee	6.6% Wholesale Price
Kansas	10% Wholesale Price	Texas	
Kentucky	15% Wholesale Price	Cigar	1.0¢-15.0¢ /10 cigars
Louisiana		Tobacco/Snuff	\$1.22 /ounce
Cigars	8%-20% Manufacturer's Price	Utah (4) (6)	86% Manufacturer's Price
Snuff/Smoking Tobacco	20%-33% Manufacturer's Price	Virginia (4)	10% Manufacturer's Price
Maine		Vermont (4)	92% Wholesale Price
Chewing Tob./Snuff	\$2.02/ounce	Washington (4)	95% Wholesale Price
Smoking Tob./Cigars	20% Wholesale Price	West Virginia	7% Wholesale Price
Maryland		Wisconsin	71% Manufacturer's Price
Tobacco/Snuff	30% Wholesale Price	Wyoming (7)(4)	20% Wholesale Price
Cigars	70% Wholesale Price		
		Dist.of Columbia (3)	70% Wholesale Price

Source: Compiled by FTA from various sources.

Notes: Pennsylvania does not impose an OTP tax.

Source: taxadmin.org



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# OTP – Pennsylvania Is The Place To Be



Photo courtesy Google Earth



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## KMC Distributors Bensalem, PA

## S & R Wholesale Croydon, PA



Connecticut & Massachusetts plated vehicles observed at these locations.

Photos Courtesy Google Earth & Altria Vendor



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# Massachusetts OTP Case

## **Defendant pleads guilty to role in tobacco wholesale tax fraud ring in Massachusetts, Connecticut**-March 23, 2015 at 11:35 PM

-Irfan Sami, 46, plead guilty in federal court in Springfield conspiracy and wire fraud for defrauding Massachusetts & Connecticut of tax from cigars & smokeless tobacco.

-Sami and co-conspirators aided Massachusetts wholesale businesses in Springfield and Attleboro and Connecticut businesses in Danbury, Hamden and Berlin.

-Sami worked from a warehouse in Scranton, PA, helped his employer create fake invoices used to make false tobacco tax filings understating the tobacco tax due.

-Brothers Jugjeev and Hasmit Kharbanda were also involved in this activity and plead guilty to charges in connection with the scheme.

-Syed Bokhari's considered one of the leaders has his case pending.

-The Internal Revenue Service, the U.S. Attorney's Office, ATF, and Homeland Security investigated this case with assistance from law enforcement in several states including Connecticut, Massachusetts, Pennsylvania, New York and Rhode Island.

[www.masslive.com/news/index.ssf/2015/03/latest\\_defendant\\_in\\_tobacco\\_pl.html](http://www.masslive.com/news/index.ssf/2015/03/latest_defendant_in_tobacco_pl.html)



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# Credit/Gift Card Fraud



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integrity



# Credit Card Fraud - How it works!

- Overseas groups obtain identifying information for U.S. citizens and then sell it in blocks to groups/individuals in the U.S.
- These groups then use the identifying information to fraudulently obtain credit cards, which they quickly use to buy thousands of dollars worth of gift cards.
- Others use the identifying information and upload it on to cards they create and make skimmed/fraudulent credit cards by the hundreds.
- These groups then use the fraudulent credit cards or the fraudulently obtained gift cards to purchase cartons of cigarettes.
- The groups have their associates travel all over the United States perpetrating this activity.
- The bigger groups usually target warehouse/buyers club operations.
- Smaller groups may go to multiple gas stations and/or convenience stores.
- The groups carry multiple cards with them and look for ones that work and use them until cashier/register won't accept it any more. Then they pull out another one.



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## Three arrested after reportedly found with more than 100 fraudulent credit cards

*Posted: Jul 17, 2015 11:39 PM EDT Updated: Jul 18, 2015 2:43 AM EDT*



- Three men were arrested on trafficking in stolen identities as they attempted to buy cigarettes on fraudulent credit cards in West Quincy, Missouri.
- The Marion County Sheriff's Department found vehicle in Palmyra, MO & located driver and two people exiting a store carrying numerous cartons of cigarettes. The three fled on foot but were found three blocks away.
- Deputies found 115 fraudulent credit cards from numerous banks as well as equipment to make credit cards during a search of vehicle and arrested Sheng Jin Wang, 56, of West New York, N.J., Ming Dong, 33, of Elizabeth, N.J., and Teng Ma, 25, of Flushing, N.Y. They were taken to the Marion County Jail.
- The FBI and U.S. Immigration and Customs Enforcement are assisting.

<http://www.whig.com/story/29577257/three-arrested-after-reportedly-found-with-more-than-100-fraudulent-credit-cards>



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# Retail Store Burglaries/ Robberies



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brand  
and trade  
channel

integrity



# Retail Store Burglaries/Robberies

- They occur all over the United States with more and more frequency.
- Thieves tend to target major brands like Marlboro and Newport.
- Often, the stolen product is resold to subjects involved in the illicit cigarette business or to unscrupulous store owners.
- Law enforcement in some of these incidents believe the activity is organized and well-planned.
- Subjects arrested/involved in these burglaries may be a source of information relative to illicit cigarette activity.



# Cigarette trafficking spawning other crimes and possibly violence

Posted: Saturday, March 28, 2015 10:30 pm  
By FRANK GREEN Richmond Times-Dispatch



- In January 2015, two men transferring cigarettes to a van from a Glen Allen rental storage unit were robbed by men at gunpoint.
- The robbers drove it off with \$90,000 worth of cigarettes and \$25,000 in cash.
- Four men (Derrell Walker 35, Mohamed El Shamy 35, Mickel Marzouk 28, Karon Grant 30, all from Richmond and Glen Allen, VA) are now charged federally in that robbery and three other Richmond-area holdups that netted hundreds of thousands of dollars' in cigarettes and cash.

[http://www.richmond.com/news/article\\_e101477f-1c3d-5117-bcce-f8839f52485c.html](http://www.richmond.com/news/article_e101477f-1c3d-5117-bcce-f8839f52485c.html)



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# Cigarette Manufacturing In New York



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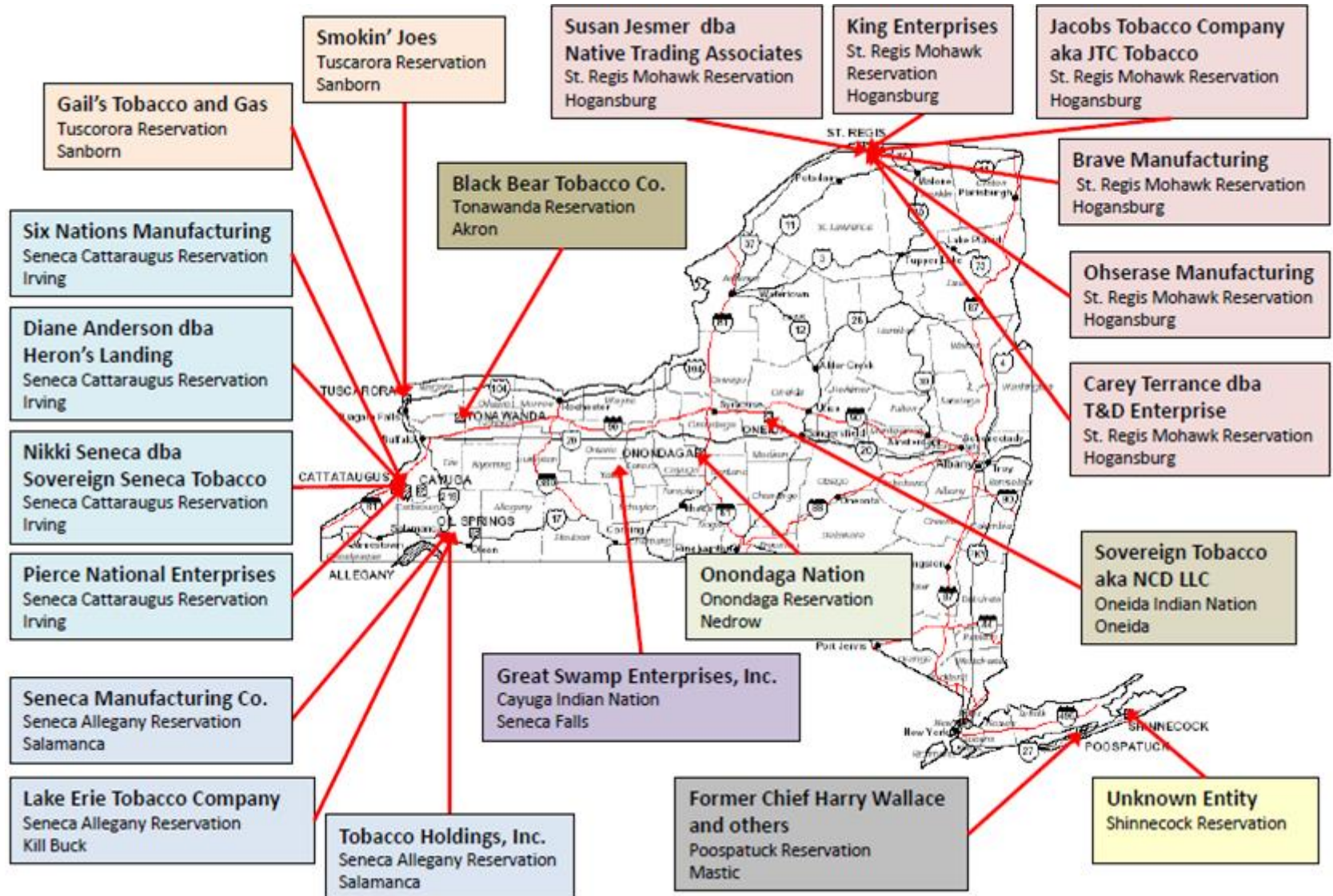


# Processed Tobacco – Movement to Illegal Manufacturers in New York/Eastern Canada

- Much of the tobacco is processed in the Wilson, NC area.
- Buyers from illicit manufacturers arrange for trucking companies to pick up loads.
- Illicit manufacturers are located on Native Reservations in NY and Canada.
- Full tractor trailer holds approximately 32,000 pounds of processed tobacco.
- Often, loads are diverted to temporary storage location away from the reservation.
- A different tractor trailer will then pick up load from initial storage site and transport to illicit manufacturing factory.
- This processed tobacco is then made into illicit packs or baggie/rollies and distributed to various reservations for sale to off-reservation buyers.



# Various New York Based Cigarette Manufacturers



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# Illicit/Unlicensed Manufacturing



Source: BTCI Vendor

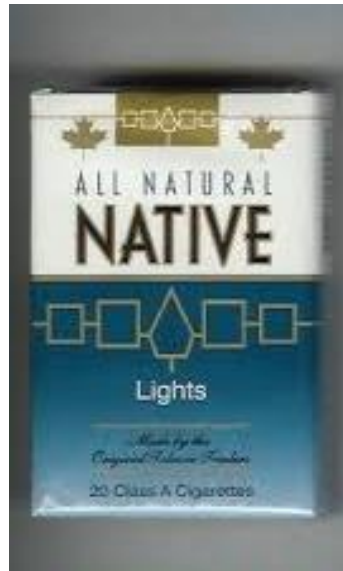


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# Various Brands Manufactured In New York



# Cigarette Trafficking and Cash Smuggling



March 2015

- Abdulkarim Altareb was busted at JFK Airport with \$770,000 in cash tucked away in boxes of Alka-Seltzer, Thera-flu and Band-Aids inside his checked luggage.
- Cash is suspected of being illegal profits made from illicit cigarette operations



Photo: U. S. Customs & Border Protection



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# How Untaxed Cigarettes Can Lead To Funding Terrorism

By John Crudele/NY Post

May 18, 2015 | 11:21pm

- Theophilus Burroughs is former Stuyvesant High School music teacher who allegedly chose a few years ago to be one of those lone-wolf terrorist types.
- No indication that he was going to do the dirty work himself, but he started dealing in contraband — first selling untaxed cigarettes and then heavy-duty weapons i.e. AK-47s and even grenades.
- The money he made, it is alleged, was earmarked for Hamas, the Palestinian terror organization. Burroughs liked Hamas because it was more willing to fight than others. Burroughs was arrested along with others in a 2010 sting operation by the NYS Taxation and Finance.
- He was in Bronx Supreme Court recently and is set to return on June 5, 2015 so that a trial date can be set, since Burroughs is not free on bail.

<http://nypost.com/2015/05/18/how-untaxed-cigarettes-can-lead-to-funding-terrorism/>



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# Enforcement Resource Center

[www.contrabandtobacco.com](http://www.contrabandtobacco.com)

- Secure law enforcement website
- Website will provide information such as:
  - Law enforcement programs and resources
  - Investigative intelligence and guidance
  - Product identification
  - Training materials
  - Cigarette laws and recent news and information



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Altria Anti Illicit Trafficking Unit- Law Enforcement Support

John Connolly

(518) 281-7766

[john.m.connolly.contractor@altria.com](mailto:john.m.connolly.contractor@altria.com)



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## Illegal Cigarette Trafficking

Connecticut Tobacco Enforcement Unit

J. Patrick Bernardo





# Why Does Trafficking Occur?



- All cigarette trafficking schemes, no matter the methods employed, depend upon tax avoidance.
- Cigarette smuggling and “black market” cigarettes have existed for decades, but recent tax increases in a number of states have greatly increased the potential profits to be made.

# Why Does Trafficking Occur?

•The state excise tax rate for a carton of cigarettes (10 packs):

– Virginia	\$3.00
– Pennsylvania	\$16.00
– New Jersey	\$27.00
– <b>Connecticut</b>	<b>\$34.00</b>
– Rhode Island	\$35.00
– New York	\$43.50
– New York City	\$58.50

# Why Does Trafficking Occur?

•The state excise tax rate for a case of cigarettes (60 cartons):

– Virginia	\$180.00
– Pennsylvania	\$960.00
– New Jersey	\$1,620.00
– <b>Connecticut</b>	<b>\$2,040.00</b>
– Rhode Island	\$2,100.00
– New York	\$2,610.00
– New York City	\$3,510.00



# Why Does Trafficking Occur?

- “Illegally trafficked cigarettes now have a higher profit margin than cocaine, heroin, marijuana, or guns.”
  - Quote from an agent with the Virginia State Police.

# Financial Impact of Trafficking



- The loss of tax revenue hurts local governments, as well as the state of Connecticut, and the federal government.
- “Because of its clandestine nature, the extent of illicit trade in tobacco products cannot be measured with certainty.”
  - GAO Report, “Illicit Tobacco,” 2011.

# Connecticut Cigarette Tax Revenue



- Fiscal Year Ending

- June 30, 2012 \$410,807,228

- June 30, 2013 \$384,381,769

- June 30, 2014 \$364,655,595

- June 30, 2015 \$348,169,977

# Methods Used By Traffickers

- The broad categories of cigarette trafficking crime are:
  - Smurfing
  - Fraudulent retail operations for purchasing in bulk
  - Retailers selling cigarettes “off the books”
  - Tax avoidance by wholesalers
  - Tax avoidance by manufacturers
  - International smuggling
  - Importing counterfeit cigarettes
  - Forged tax stamps



# Methods Used by Traffickers: Smurfing



North Haven Connecticut seizure: 185 cartons smuggled up from Virginia



# Methods Used by Traffickers: Forged Tax Stamps

Over 37,000 counterfeit Connecticut stamps seized in NYC by New York Sheriffs and Connecticut Agents



# Methods Used by Traffickers: International Smuggling



Source: Center for Regulatory Effectiveness, 2011



# Methods Used by Traffickers: International Smuggling

## Postal inspector: Cigarettes from China





# Methods Used by Traffickers: International Smuggling

## Connecticut seizure: Cigarettes smuggled in from China



# Methods Used by Traffickers: International Smuggling

## Postal inspector: Cigarettes from Israel



# Methods Used by Traffickers: International Smuggling

## Postal inspector: Cigarettes from Israel destined for Connecticut locations





# Methods Used by Traffickers: International Smuggling

## Postal inspector: Cigarettes from Moldova





- Master Settlement Agreement
  - 1998 48 states entered into agreement with four leading tobacco companies
    - R.J. Reynolds
    - Phillip Morris USA
    - Brown & Williamson Tobacco (now RJ Reynolds)
    - Lorillard (now RJ Reynolds)
  - 2013 Arbitration resulted 6 states losing part of their funding.
  - Over \$100 million a year at stake

# MSA Unit Organization Chart



# MSA Unit Inspections Throughout Connecticut



# MSA Unit Inspections Throughout Connecticut





# MSA Unit Inspections Throughout Connecticut





# MSA Unit Inspections Throughout Connecticut





## STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES ***MEDIA RELEASE***

25 Sigourney Street  
Hartford CT 06106-5032

Contact: Sarah E. Kaufman  
(860) 297-5610  
[Sarah.Kaufman@po.state.ct.us](mailto:Sarah.Kaufman@po.state.ct.us)  
Twitter: <http://twitter.com/#!/CTDRS>

DRS Home Page: <http://www.ct.gov/DRS>

**For Immediate Release:**

**Tuesday, September 15, 2015**

### **DRS Announces Arrests by New Tobacco Enforcement Unit**

Hartford – Commissioner of Revenue Services Kevin B. Sullivan today announced arrests made by the agency's new Master Settlement Agreement (MSA) Tobacco Enforcement Unit as a result of surveillance operations. The unit was created at the Department of Revenue Services (DRS) to combat the illegal trafficking of tobacco and cigarettes.

On September 1, 2015, members of the MSA Unit arrested Mohammad Khan, 34, of Hamden, and Nestor Collazo, 63, of Bridgeport. Khan was charged with one count of Possession of Untaxed Cigarettes, a misdemeanor. Collazo was charged with two counts of Possession of Fraudulent Tax Stamps, a class D felony, and one count of Possession/Sale of Untaxed Cigarettes, a misdemeanor.

Said Commissioner Sullivan, "Possession of contraband cigarettes and fraudulent tax stamps is a criminal enterprise that DRS and the State of Connecticut take very seriously. We are putting criminals on notice: We are watching and this activity won't be tolerated here."

Agents with the MSA Unit were conducting surveillance in Bridgeport when they witnessed Khan and Collazo allegedly engage in an illegal cigarette transaction. As part of the arrests, agents seized 85 cartons of untaxed cigarettes stamped with counterfeit Connecticut tax stamps. Agents also seized a 2004 Volvo SUV and more than \$3,700 in cash.



# Investigative Tools Used

- Pole Cameras
- GPS Devices
- Rental Cars
- Undercover Buys (Seed Money)
- Hidden Camera
- Search Warrants
- Tobacco Dogs



# Keys for Success

## Interagency Cooperation:



# Questions

Questions?

Thank You

- [James.Bernardo@po.state.ct.us](mailto:James.Bernardo@po.state.ct.us)
- [tobaccotips@po.state.ct.us](mailto:tobaccotips@po.state.ct.us)